British Columbia
Buildings Corporation

ANNUAL REPORT

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The British Columbia Buildings Corporation is a Crown corporation established in 1976 to bring strict accountability to the provision and allocation of government accommodation.

Using a market based pricing system to the maximum extent possible, the Corporation establishes rents which are charged to government ministries for the space they occupy. The Corporation thus fulfills its mandate to be revenue dependent, and ministry budgets more accurately reflect the real costs of government programs.

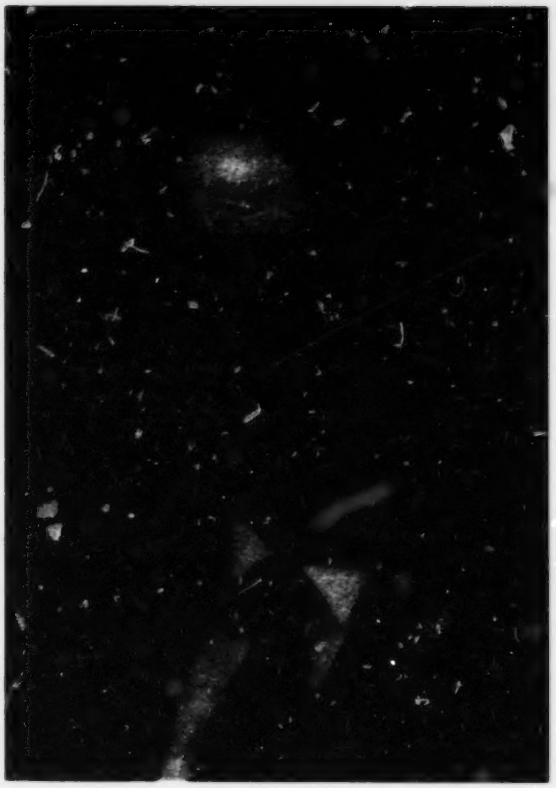
The Corporation represents a unique departure from the ministry or department approach to the provision and maintenance of accommodation for government in three important ways:

- Overall direction is vested in a Board of Directors on a basis broadly comparable with the private sector
- Operations are financed through revenue derived from charging for the space and services provided
- Capital projects are financed through borrowings and internally generated funds.

The Corporation is accountable to the Legislature through the Provincial Secretary and Minister of Government Services.

FIVE YEAR HIGHLIGHTS

Year Ended March 31	$000's				
FINANCIAL	**1987**	1986	1985	1984	1983
Gross Revenue	**239,885**	234,547	234,321	227,059	206,708
Operating Income	**66,539**	69,053	67,419	65,096	54,236
Interest	**61,247**	65,858	63,015	56,584	37,657
Net Income	**5,292**	3,195	4,404	8,512	16,579
Cash Flow From Operations	**39,678**	39,583	40,919	41,899	43,348
Total Assets	**567,458**	791,352	821,961	854,769	812,210
Operating Income Margin	**27.7%**	29.4%	28.8%	28.7%	26.2%
Return on Investment	**10.2%**	10.4%	10.1%	9.6%	9.1%
Return on Equity	**5.1%**	3.0%	4.2%	8.1%	17.0%
PROPERTIES	**Square Metres**				
Owned	**1,300,433**	1,355,019	1,384,846	1,440,424	1,382,881
Leased	**442,577**	436,619	420,171	448,675	465,316
Maintained	**79,003**	104,424	104,998	159,321	147,273
	1,822,013	1,896,062	1,910,015	2,048,420	1,995,470
STAFF CHANGES					
Corporate Staff Base	**606**	666	727	874	1,080
Cumulative Function Acquisitions and Related Staff Transfers	**333**	333	333	90	54
Total Authorized Complement	**939**	999	1,060	964	1,134



His Honour
The Honourable Robert G. Rogers
Lieutenant-Governor of the Province
of British Columbia

MAY IT PLEASE YOUR HONOUR

The undersigned has the honour to present the Annual Report of the British Columbia Buildings Corporation for the year ended March 31, 1987.

Elwood N. Veitch
Provincial Secretary and Minister of
Government Services
Province of British Columbia

PRESIDENT'S REMARKS 1986/87 ANNUAL REPORT

On behalf of the 939 employees of the B.C. Buildings Corporation, I am pleased to report continued success in the achievement of challenging objectives in our ninth year of operation.

The best evidence of our accomplishments this fiscal year may be found in a comparison of key results to the specific predictions and targets set out in my 1985/86 Remarks. The following summary tabulates this comparison:

	Outlook for 1986/87	Actual for 1986/87
Revenue Growth	3%	2.3%
Capital Expenditures	$47 million	$47 million
Vacant Space Reduction	25%	41%
Total Space Reduction	1.2%	3.9%
Leased Space Increase	2.0%	1.4%
Gains on Property Disposals	$4.0 million	$3.4 million
Interest Cost Reduction	$2.0 million	$4.6 million
Total Debt	Unchanged	Down $219.4 million
Manpower Level	Reduce by Attrition	Reduced 60 positions
Reduction in Energy Consumption	4%	3.1%
Overhead Costs	Down 2%	Up 2.9% (Net)
Net income	$4 million	$5.3 million

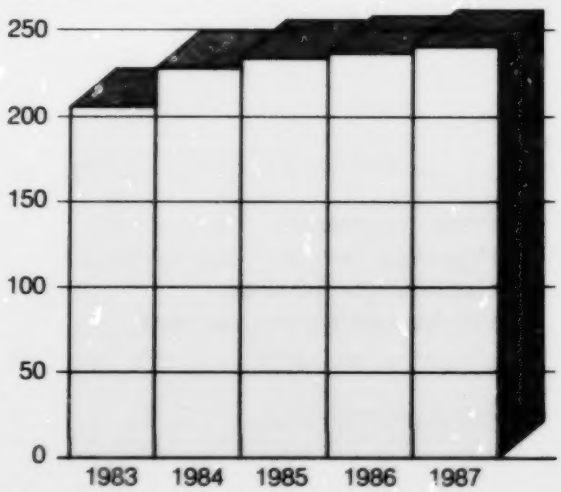
Being a demand driven organization, we have little real control over revenue growth or on the level of capital expenditures. However, with respect to the other 10 objectives listed, we do have substantial influence over the results achieved, and they confirm significant accomplishments, which are elaborated upon in the following review. The only clear miss was on overhead costs, which increased by a net 2.9%, as a result of an unbudgeted, retroactive salary adjustment and a $500,000 increase in insurance costs.

It is significant to note that, effective March 31, the Provincial Government agreed to reacquire, at the original $205 million cost, the Corporation's interest in British Columbia Place Ltd. This decision was made in conjunction with the Government's reorganization plan for British Columbia Place Ltd. and related companies. This transaction is described in more detail in the financial statements.

FINANCIAL RESULTS

1. **NET INCOME**
   The Corporation maintained its unbroken record of profitability by achieving a net income of $5.3 million, an increase of 66% over the previous year and 33% over budget. This result is particularly significant since it was achieved at a time when revenues grew by only a modest 2.3%, including less reliance, for the first time in three years, on gains from property disposal. In fact, net income before gains on disposal grew by $6.2 million.
2. **DIVIDEND**
   The level of profitability, combined with the maintenance of a sound debt to equity structure, allowed us to declare a $2.65 million dividend to our shareholder, the Government of British Columbia.
3. **RETURN ON INVESTMENT**
   Excluding the impact of the B.C. Place share transfer, the ROI was 10.2%. This key indicator remained above 10% for the third consecutive year, despite the downward influence of slow revenue growth and a falling interest rate environment.

TOTAL REVENUES *($ Millions)*



4. **RETURN ON EQUITY**
ROE rose to 5.1% from 3% in the previous year, directly as a result of our higher profitability.

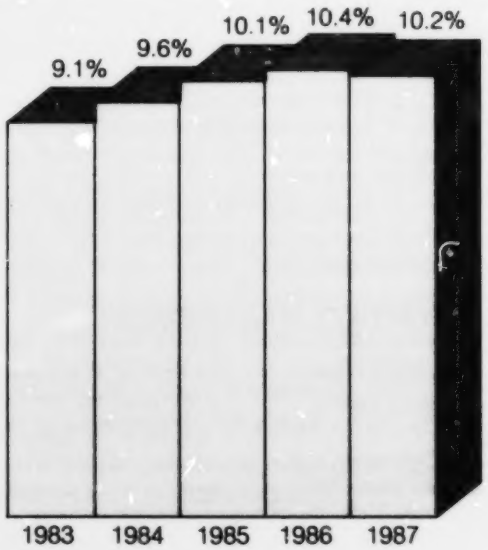
5. **DEBT**
Debt was reduced by $205 million, due to the assumption by the Province of the debt associated with our Investment in B.C. Place Ltd. In addition, despite continued high levels of capital expenditures, internally generated funds were sufficient to further reduce total debt by $14.4 million.

6. **INTEREST COSTS**
Careful management of our debt, in particular our refinancing strategies, applied in a period of falling interest rates, allowed us to achieve a substantial $4.6 million reduction in interest costs. The year also saw repayment of the last of our U.S. borrowings and the end of the associated foreign exchange risk which will allow better predictability of interest costs.

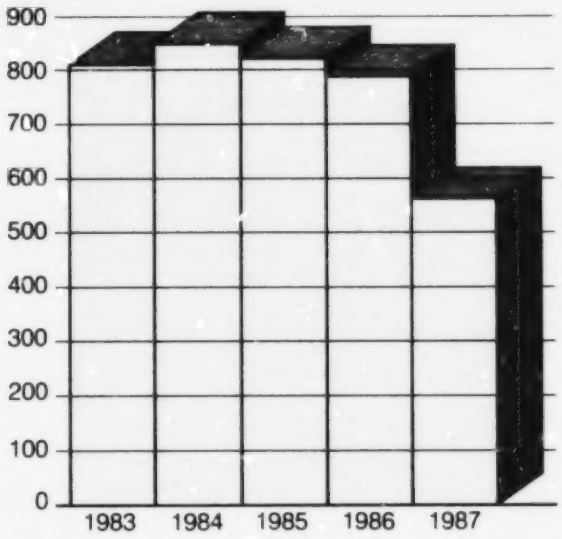
HUMAN RESOURCES

1. **ORGANIZATION**
In recognition of the increasing importance of our real estate activities to the financial and business success of the Corporation, a new Real Estate Group was formed, bringing together all real estate, leasing and pricing functions under John Robinson as the Vice-President. I am particularly pleased that, even though the establishment of this Group and other lesser reorganizations resulted in a number of new senior positions, all were filled by promotion of our own staff and no new employees were added to payroll.

RETURN ON INVESTMENT



TOTAL ASSETS *($ Millions)*



2. **PERMANENT STAFF**
- Attrition during the year resulted in 78 vacancies. Of these, creative and economical ways were found to eliminate 60 positions.
- As the manpower chart on page 4 illustrates, when the year end staff level of 939 is adjusted for the 333 staff transferred to the Corporation since start up, the residual 606 employees represent only 36% of the human resources employed by Government prior to start up, despite an intervening 29% growth in portfolio.
- We continued to share the benefits of our downsizing policy with our employees. During the year, 172 employees, or 18% of our population, changed jobs. 68 of these received promotions, 71 were reclassified with pay increases, and the other 33 moved laterally to positions of their choice.

3. **TEMPORARY STAFF**
Temporary staffing reached the lowest level ever, with only five person years of coverage required.

4. **OVERTIME**
Despite the staff reductions and insignificant temporary coverage, overtime remained below 1% of regular hours.

5. **ABSENTEEISM**
Corporation employees averaged 3.4% sick time. Most significant is the fact that a total of 416 employees had a perfect attendance record during the past year.

CORPORATE STAFF LEVELS OVERVIEW

Note 1987 adjusted total of 606 represents 36.2% of pre-startup levels

6. ACCIDENT FREQUENCY
After a disturbing increase the previous fiscal year to 21 lost time injuries per million man hours worked, a special **Accidents Zero** program, launched by Property Management Vice-President Al Kemp, achieved phenomenal results. Accident frequency fell to 8.4 lost time injuries per million man hours worked, the lowest level since start up, thanks to the collective efforts of our staff and the leadership of 17 safety committees throughout the Corporation.

7. STAFF DEVELOPMENT
As in the case of the Excellent Manager Program attended by over 200 supervisory and management staff the previous year, the same employees, plus others promoted during the year, had either attended or were scheduled to attend, a comprehensive Leadership seminar, specially designed to fit our corporate environment. Our employees have thoroughly enjoyed and clearly benefited from both these programs.

In addition, a thorough orientation program has been established for every employee moving into a different position. With 172 employees changing jobs during the past year, the advantages of an organized orientation effort are readily apparent.

8. EMPLOYEE AND LABOUR RELATIONS
A new, 33 month collective agreement was negotiated and implemented with no work disruption and relationships with the Union and with employees at all levels of our organization remain excellent.

REAL ESTATE

1. PROPERTY DISPOSALS
A total of 71 properties were sold for an aggregate $9.8 million. These sales contributed $3.4 million to the Corporation's net income during the year, dramatically reducing our vacancy factor, and, in many cases, stimulating economic activity by the private sector on the sites sold.

2. LEASING
As evidenced by the continued shifting of our portfolio in favour of leased space, 10 major developer build/leasebacks were put out for public proposals – rather than having the Corporation fund, build and own these projects as occurred in our early years. We have found this technique to be efficient and, in most cases, very economical. Additional insight into its use is contained in this year's theme article, on page 13.

3. PROPERTY TAX ASSESSMENTS
Negotiations with the B.C. Assessment Authority and some formal appeals of assessments will result in a $500,000 reduction in Grants in Lieu payments, bringing direct benefit to our clients through reduced occupancy charges.

4. PRICING AUDIT
An independent audit of our pricing policies and practices by Peat Marwick confirmed our general consistency with the private sector. Minor identified deviations resulted in adjustments in our approach.

DEVELOPMENT PROJECTS

1. 24 major projects, amounting to $33 million, were commissioned during the year. On average, they were completed 5.2% below budget and within the originally targeted schedules.
2. Over $100 million of capital works remains in progress, centered mainly on the replacement of obsolete correctional facilities and the construction of several young offenders' units which are partially funded by the Federal Government.
3. Despite this high construction activity, the Development Group operated with a staff complement of 25 – it's lowest ever.

PROPERTY MANAGEMENT

1. Largely due to our staff reduction achievements and despite inflationary pressures, the total expenditures by this Group increased by only 0.8%.
2. Operating costs per square metre in the past six years have increased by an aggregate of only 14%, compared to the Vancouver Consumer Price Index movement of 39%.

3. $36.8 million, or 59.1% of our total Property Management expenditures other than energy and administration, were spent on private sector contracts – an increase of 12.4% in one year.
4. Added to the previous reduction of 48%, a further 3.1% reduction in energy consumption was achieved during 1986. Our cumulative cost avoidance, over the eight years of our energy management program, now amounts to $29.3 million on a total capital investment of $12.6 million. The amount saved is growing at an annual rate of $6.4 million. This performance has again merited an ASHRAE Award for excellence in energy management during the past year.

CUSTOMER SERVICE

Much effort was directed through the year to continuing to provide PRIORITY ONE customer service and value for money. Various techniques were used in reinforcing this orientation of the Corporation.

1. Every supervisory employee's objectives highlighted our client focus and identified specific areas to be targeted for improvement.
2. Client contact personnel at many levels were invited to and participated in a number of workshop sessions with staff of the Corporation.
3. The Client Panel continued as a meaningful forum for joint problem solving and produced an updated and further streamlined Accommodation Manual.
4. Fast-tracked response by the Corporation assisted clients in achieving numerous, urgent accommodation changes or reconfigurations as a result of Government's reorganization of ministry responsibilities.
5. A new Victoria Space Plan was developed quickly, with significant client input, as a guideline for the less urgent client changes which will flow from the same restructuring.
6. At year end, our third field customer audit in five years was underway to measure the degree of field customer satisfaction, both in absolute terms and as compared to past performance benchmarks.

OUTLOOK FOR 1987/88

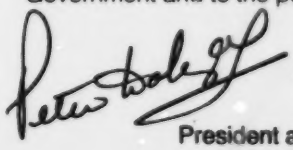
1. Our customers will continue to receive PRIORITY ONE service and value for money.
2. Revenues will edge upward by an estimated 2.3%.
3. Capital expenditures are expected to reach $54 million as the correctional facilities replacement program moves into high gear. Major approved projects expected to get under way include:
   - The 254 bed Fraser Regional Correction Centre in Maple Ridge
   - The 48 bed Young Offenders' Unit in Prince George.
4. Vacant space will be reduced by a further 20%, helping moderate expected space growth to less than 1%.
5. Leased space solutions will continue to be sought for all but the most specialized of facilities, with the proportion of leased space in our portfolio increasing by at least 3%.
6. Another 77 properties are scheduled for sale to the private sector, generating $3 million in expected gains on disposal.
7. Net interest expenses are expected to decline by $16.4 million, primarily because the Province assumed responsibility for the debt associated with the B.C. Place Ltd. investment on March 31, 1987.
8. The Corporation's remaining total debt will stay relatively static, despite continued high capital expenditures.
9. Attrition generated vacancies will continue to be carefully scrutinized for economic rationalization, to the maximum benefit of our employees.
10. Energy consumption is budgeted to reduce by a further 2%.
11. Overhead costs will not increase.
12. The collective effect of the above objectives, successfully achieved, will produce a net income for the Corporation of at least $20 million.

The past year marked a number of significant changes to the composition of our Board. Bill Ritchie retired from politics and Evan Wolfe completed a three year term on the Board. To both of these gentlemen, we extend our sincere thanks for their interest and dedication to the success of our Corporation.

Their vacancies were filled by Dan Peterson, MLA (Langley) and by Doug McCallum, Chairman of the B.C. Lions Society for Crippled Children. In addition, the Honourable Elwood Veitch assumed the duties of Minister Responsible for the Corporation. To these gentlemen, the balance of the Board, and especially to our Chairman, Tom Toynbee, my staff and I extend our appreciation for their counsel and assistance which helped make our ninth year another success.

Most of all, however, I would like to extend my personal appreciation to each of our employees, whose support, energy and hard work produced the results which I have the pleasure of reporting.

I am certain that with the continued support of our clients, our Board and our staff, our tenth year will prove to be of even greater benefit to Government and to the people of British Columbia.



Peter Dolezal
President and Chief Executive Officer

BALANCE SHEET

	Note	March 31 1987	1986
		$000's	
ASSETS			
Real estate investments			
Income-producing properties	2	**518,921**	510,429
Income-producing properties under construction	3	**11,670**	15,048
Land held for development	4	**10,521**	11,355
		541,112	536,832
Investment in British Columbia Place Ltd.	5	**–**	205,000
Corporate properties and equipment	6	**9,101**	9,169
Unamortized debt discount and issue expenses		**9,735**	19,560
Other assets	7	**7,510**	20,791
		567,458	791,352
LIABILITIES AND EQUITY			
Long-term debt	8	**342,009**	555,835
Notes payable to the Province of British Columbia	9	**43,098**	54,885
Short-term debt	10	**35,360**	38,951
Other liabilities	11	**42,803**	36,698
Contributions by the Province of British Columbia	12	**55,579**	59,021
Retained earnings		**48,609**	45,962
		567,458	791,352
Commitments	13		

ON BEHALF OF THE BOARD:

George A. Rigsby, Director

Robert E. Parkinson, Director

The accompanying notes are an integral part of these statements.

AUDITORS' REPORT

To the Lieutenant-Governor-in-Council
Province of British Columbia

We have examined the balance sheet of British Columbia Buildings Corporation as at March 31, 1987 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of British Columbia Buildings Corporation as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick

Vancouver, Canada
June 10, 1987

CHARTERED ACCOUNTANTS

STATEMENT OF INCOME

	Note	Year ended March 31 1987	1986
		$000's	
REVENUE			
Rentals		**222,451**	215,519
Other income		**17,434**	19,028
		239,885	234,547
EXPENSES			
Property management		**62,541**	57,168
Leases		**47,575**	45,464
Depreciation		**28,464**	26,550
Energy		**14,417**	16,262
Property taxes and grants		**11,582**	11,168
General and administrative		**8,767**	8,882
		173,346	165,494
Net income before interest		**66,539**	69,053
Interest	*14*	**61,247**	65,858
NET INCOME		**5,292**	3,195

STATEMENT OF RETAINED EARNINGS

	Year ended March 31 1987	1986
	$000's	
Balance, beginning of year	**45,962**	42,767
Net income	**5,292**	3,195
	51,254	45,962
Dividend	**2,645**	–
Balance, end of year	**48,609**	45,962

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Note	Year ended March 31 1987	1986
		$000's	
OPERATING ACTIVITIES			
Net income		**5,292**	3,195
Non-cash item – depreciation and amortization		**35,899**	39,256
Other assets and liabilities, net change		**(1,513)**	(2,868)
		39,678	39,583
FINANCING ACTIVITIES			
Long-term debt issued		**50,000**	25,000
Long-term debt repayments		**(48,183)**	(16,363)
Sinking fund payments		**(9,971)**	(8,955)
Reduction of notes payable to the Province		**(11,787)**	(12,658)
Reduction in short-term debt		**(958)**	(9,537)
		(20,899)	(22,513)
INVESTMENT ACTIVITIES			
Return of investment to the Province	*5*	**205,000**	–
Debt assumed by the Province	*5*	**(205,000)**	–
Real estate investments		**(37,268)**	(24,618)
Sale of properties		**7,007**	22,196
Decrease in contributions by the Province		**(3,442)**	(3,495)
Corporate property and equipment		**(2,415)**	(1,724)
		(36,118)	(7,641)
DIVIDENDS			
Dividend declared		**(2,645)**	–
Increase in dividend payable		**2,645**	–
		–	–
INCREASE (DECREASE) IN CASH AND EQUIVALENTS		**(17,339)**	9,429

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987

1. ACCOUNTING POLICIES

The Corporation is incorporated under the British Columbia Buildings Corporation Act as a Crown Corporation of the Province of British Columbia, and is an agent of the Crown.

(a) Real Estate Investments

Real estate investments and corporate properties and equipment are recorded at cost less accumulated depreciation. In addition to land and direct costs, amounts capitalized to real estate investments during development and construction include property taxes and the applicable portion of both interest on general borrowings and general and administrative expenses.

(b) Depreciation

Real estate investments and corporate properties and equipment are depreciated on an individual basis by the straight-line method over their estimated useful lives or lease terms. Depreciation is prorated by month in the year of acquisition or disposal.

The estimated useful lives or lease terms of income-producing and corporate properties are between five and forty years. The estimated useful lives of all other assets are between three and ten years.

(c) Income Taxes

The Corporation is exempt from Federal and Provincial income taxes.

(d) Sinking Funds

Payments made to sinking funds with respect to retirement provisions of sinking fund bonds and debentures are netted against long-term debt until such time as the bonds or debentures are redeemed and cancelled. Interest earned on the sinking funds is treated as interest income with a corresponding increase in the sinking funds.

(e) Amortization of Debt Discount and Issue Expenses

Debt discount is amortized by the effective rate of interest method and issue expenses are amortized on a straight-line basis, both over the terms of the applicable debt.

(f) Foreign Exchange

Monetary liabilities in foreign currencies are translated at the rate in effect at the balance sheet date unless covered by forward exchange contracts, in which case they are translated at contract rates. The related interest expense is translated at average rates for the year. Unrealized foreign currency gains or losses on long-term monetary liabilities are reported as a deferred charge or credit and amortized over the remaining terms of the related liabilities on a straight-line basis.

(g) Cash and Cash Equivalents

Cash and equivalents for purposes of the Statement of Changes in Financial Position includes cash and temporary investments, net of bank indebtedness.

2. INCOME-PRODUCING PROPERTIES

	1987	1986
	$000's	
Net book value:		
Cost	**686,467**	664,372
Accumulated depreciation	**(167,546)**	(153,943)
	518,921	510,429
Activity:		
Net book value, beginning of year	**510,429**	517,597
Properties transferred from income-producing properties under construction	**40,154**	32,462
Disposals, net	**(5,681)**	(14,614)
Depreciation expense	**(25,981)**	(25,016)
Net book value, end of year	**518,921**	510,429

3. INCOME-PRODUCING PROPERTIES UNDER CONSTRUCTION

Balance, beginning of year	**15,048**	23,869
Direct development and construction costs	**32,671**	21,463
Capitalization of:		
Interest	**1,236**	440
General and administrative expenses	**2,869**	1,738
Cost of properties completed and transferred to income-producing properties	**(40,154)**	(32,462)
Balance, end of year	**11,670**	15,048

4. LAND HELD FOR DEVELOPMENT

Balance, beginning of year	**11,355**	17,960
Capitalization of interest and property tax	**492**	977
Disposals, net	**(1,326)**	(7,582)
Balance, end of year	**10,521**	11,355

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987

5. INVESTMENT IN BRITISH COLUMBIA PLACE LTD.

The Province of British Columbia, by Cabinet order, approved the transfer of the investment in British Columbia Place Ltd. (B.C. Place) back to the Crown effective March 31, 1987. Prior to that date the Corporation had held the only outstanding share in B.C. Place and had accounted for its investment at cost because, by statute, the voting rights to the share were exercisable by the Minister of Finance and Corporate Relations for British Columbia.

The transfer of the share was recorded at its cost of $205 million with the Province assuming long-term and short-term debt totalling that amount. See also Note 8 to the financial statements.

6. CORPORATE PROPERTIES AND EQUIPMENT

	1987	1986
	$000's	
Cost:		
Office and data processing equipment	**9,982**	8,827
Corporate properties and leasehold improvements	**3,102**	2,779
Maintenance equipment	**2,399**	2,220
Vehicles	**2,440**	1,969
	17,923	15,795
Accumulated depreciation	**(8,822)**	(6,626)
	9,101	9,169

7. OTHER ASSETS

Cash	**–**	77
Temporary investments	**–**	13,900
Accounts receivable		
– Province of British Columbia	**5,347**	4,758
– Other	**1,753**	1,460
Prepaid expenses	**410**	596
	7,510	20,791

8. LONG-TERM DEBT

	1987	1986
	$000's	
Principal outstanding:		
Payable in Canadian currency – 25 series at an average effective interest rate of 12.07% (1986 – 29 series at an average effective interest rate of 13.12%)	**490,241**	566,241
Payable in United States currency (1986 – 1 series at 13.03%)	**–**	28,183
	490,241	594,424
Sinking funds on deposit with the Minister of Finance and Corporate Relations for British Columbia, relating to long term debt of $233,041,000 (1986 – $268,041,000)	**(48,232)**	(38,589)
Liability assumed by the Province – Series BCD – see below	**(100,000)**	–
	342,009	555,835

Coupon rates on the long-term debt range from 4.75% to 15.69%

Of the long-term debt outstanding, $130,890,000 (1986 – $238,268,000) is payable to the Minister of Finance and Corporate Relations for British Columbia. The Province has unconditionally guaranteed the principal and interest of all other long-term debt issued by the Corporation.

At the option of the Minister of Finance for Canada, Sinking Fund Debentures with an aggregate principal of $165,041,000 maturing between 1997 and 2003 may be called prior to maturity under certain conditions on six months written notice.

Series BCD is a bond issue due September 8, 1987, which is non-transferrable by the terms of its issuance. It represents part of the $205 million settlement with the Province with respect to the B.C. Place investment described in Note 5. The Province has accordingly agreed to assume responsibility for repayment of the debt at maturity, including applicable interest from April 1, 1987.

New issues during year ended March 31, 1987:

	$000's
Series BCBC-M, 9.00% coupon rate, maturing Aug. 15, 1991	**25,000**
Series BCBC-Q, 8.50% coupon rate, maturing Feb. 26, 1997	**25,000**

Aggregate sinking fund and principal payments on all outstanding issues for each of the next five years:

	$000's
1987/88	**17,282**
1988/89	**17,282**
1989/90	**62,282**
1990/91	**17,282**
1991/92	**47,282**

NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1987

9. NOTES PAYABLE TO THE PROVINCE OF BRITISH COLUMBIA

The promissory notes are non-interest bearing, callable on 30 days notice, and repayable semi-annually in varying amounts to March 31, 1992.

Payments over the next five years:

	$000's
1987/88	**10,306**
1988/89	**10,306**
1989/90	**10,306**
1990/91	**10,306**
1991/92	**1,874**

10. SHORT-TERM DEBT

The short-term notes are issued by and payable to the Minister of Finance and Corporate Relations for British Columbia and mature at varying dates to July 16, 1987. The effective interest rates range from 6.80% to 8.05%, and average 7.27% for the notes outstanding.

11. OTHER LIABILITIES

	1987	1986
	$000's	
Due to bank, unsecured	**3,362**	–
Accounts payable and accrued liabilities	**20,671**	19,668
Holdbacks	**1,215**	892
Accrued interest payable		
– Province of British Columbia	**6,293**	7,515
– Other	**8,617**	8,623
Dividend payable	**2,645**	–
	42,803	36,698

12. CONTRIBUTIONS BY THE PROVINCE OF BRITISH COLUMBIA

Balance, beginning of year	**59,021**	62,516
Land returned to the Province	**(3,442)**	(3,495)
Balance, end of year	**55,579**	59,021

13. COMMITMENTS

The Corporation estimates that the cost to complete projects under construction will be $37,000,000 of which $23,000,000 has been committed.

The Corporation has entered into leases with third parties to provide space for its client ministries and its head office for varying periods up to the year 2003, at a total aggregate net rental of approximately $162,000,000. Most leases are for between five and ten years and include renewal options.

Minimum annual lease payments which will be charged to operations in subsequent years, for leases committed at March 31, 1987:

	$000's
1987/88	**39,000**
1988/89	**34,000**
1989/90	**27,000**
1990/91	**21,000**
1991/92	**15,000**
Post 1991/92	**26,000**
	162,000

14. INTEREST

	1987	1986
	$000's	
Interest on long-term debt	**64,887**	64,212
Other interest	**4,815**	4,247
Amortization of debt discount and issue expenses	**7,309**	9,391
Amortization of foreign exchange loss	**126**	3,315
	77,137	81,165
Deduct:		
Interest assistance	**10,000**	10,000
Interest earned	**4,201**	3,900
Interest capitalized	**1,689**	1,377
	15,890	15,307
	61,247	65,858

The Province of British Columbia provided assistance of $10 million towards the interest expense incurred by the Corporation in connection with its investment in B.C. Place.

15. RELATED PARTY TRANSACTIONS

The Corporation received 92% of its total revenues from Provincial Government ministries. These revenues consist primarily of rents that are determined with reference to market; however, in such cases where comparable market rates do not exist, rents are based on the amortization of the capital costs.

During the year ended March 31, 1987, the Corporation had property transactions with the Province and its agents. Properties returned had a value of $3,923,000 which was determined by reference to net book values.

PRIVATIZATION OF THE PORTFOLIO

The idea of privatizing various segments of B.C. Buildings' activities is not new. The direction was evident when the first positions were filled in 1977 with a conscious decision to limit the number of in-house staff to the minimum required to manage the portfolio. Professional consultants, contractors, trades people and the taxpayers of British Columbia have all benefited in this progressive approach to the provision of accommodation and related services for the ministries and agencies of government. The "privatizing" trend has continued and is expanding, particularly in the manner in which space is acquired. Instead of building and owning costly accommodation, the Corporation is looking more and more to private sector developers to provide acceptable space on a leased basis.

The major part of the Corporation's space inventory of 1,743,000 square metres (18.7 million sq. ft.) of owned and leased space is maintained in response to the requirements of ministry clients and when any portion of that space becomes vacant, for any reason, the result is a proportionate loss of revenue to the Corporation. The provincial restraint period resulted in a sharp increase in the amount of vacant owned and leased space and attention was quickly focused on ways to minimize the resulting losses. Two particular options were apparent, both of which were in keeping with the trend toward increased privatization of our portfolio:

- Sale and leaseback of owned space
- The outright sale of vacant owned property

In the first instance, where a vacancy affected only a portion of an owned property, opportunities were sought to sell the entire property with a leaseback provision for that portion required for client use. Such opportunities effectively reduced our owned vacant space and concurrently resulted in more privatization of our space portfolio. During the past three years, the Corporation has disposed of 328 surplus properties for a total of $42.6 million producing a net profit of $17.4 million.

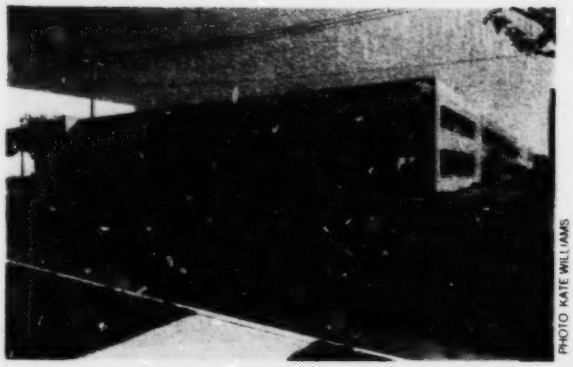


PHOTO KATE WILLIAMS

This office block in Victoria was sold to the private sector and the building was then leased back by the Corporation.

CORPORATE LEASING

In recent years, B.C. Buildings has moved to change the balance between the amount of space it owns and leases. Historically, such properties as highways facilities, forestry complexes and law courts were all owned. Now, however, there is an increasing effort to lease even some specialized properties from private sector developers where it makes good economic sense to do so. Certainly, major specialized projects such as residential institutions, corrections facilities and fish hatcheries will continue to be owned, but the number of active leases, currently between 850 and 900, are expected to increase steadily. These leases, the majority of which were established to fill office space requirements, presently contribute some $50 million annually to the provincial economy.

Normally, office space leases have been concluded after an examination of existing space where the owner has agreed to make certain alterations, or tenant improvements, to better suit customer requirements. A more recent trend is to advertise for space to be built to suit the specific requirements of a client. These developer-build leases, or developer proposals, are a form of lease arrangement whereby needed accommodation is supplied by a private sector developer, using private capital to develop new accommodation to required criteria with a guarantee of occupancy for a specified term. The Corporation's Head Office, Victoria, was among the first of this type of lease entered into by the Corporation and, as reported in 1983, it resulted in "substantial occupancy cost reductions over the ten year term of the lease". Using this same approach regional forests complexes have been provided at Burns Lake,

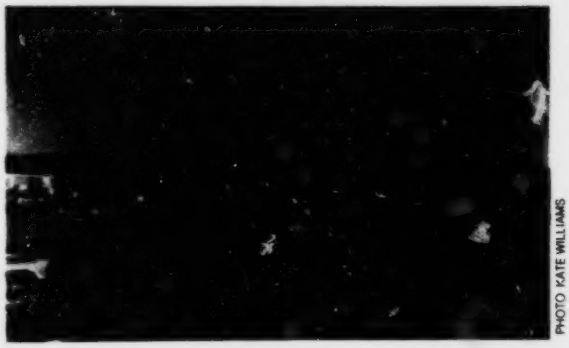


PHOTO KATE WILLIAMS

A developer-built complex at Duncan, constructed to meet the requirements of Forests and leased by the Corporation.

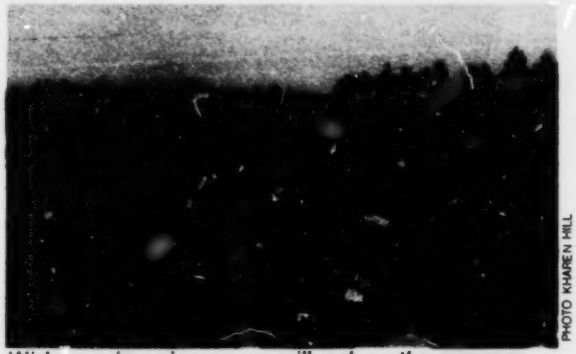


PHOTO KHAREN HILL

Wide overhanging eaves will reduce the summer-time cooling costs in this Ministry of Forests and Lands office at Sechelt on the Sunshine Coast. Under the Corporation's direction, this building was designed and constructed by a private developer for lease to the Corporation.

Sechelt, Cranbrook, Vernon, Houston and Duncan. Recently committed developer proposals have resulted in leases for 160,000 sq. ft. of various kinds of accommodation which will generate payments of some $22 million to the private sector over the next 10 years.

The developer proposal and the sale-leaseback have similar benefits. They:

- Enhance the flexibility of space over the long term
- Respond to immediate requirements while using private sector initiative and capital
- Ensure highest and best use of land within municipalities
- Add more dollars to municipal tax rolls.

Developer proposals are publicly advertised to ensure that the widest exposure is given to the development community. When the responses are received, each is evaluated and the most acceptable ones, in terms of functional suitability and price, are further negotiated to arrive at the optimum value for the Corporation's clients.

DISPOSALS

All properties disposed of have either been declared surplus, offer a creative method of moving property back to community and private sector use, or provide an attractive leaseback opportunity. The ideal situation is a sale that satisfies all three criteria and the former McKenzie Avenue Motor Vehicle Testing Station in Victoria is a good example. When this property was declared surplus, the Corporation invited developer proposals from the private sector to provide space for the Ministry of Transportation and Highways Motor Licence Office and a new provincial government postal service office to be constructed on the site. The property was sold for $1.2 million to the developer who built the required accommodation, leased it back to the Corporation, then added other commercial outlets to develop the property to its highest and best use. Also in Victoria, the Corporation recently sold a 6.9 acre property comprised of workshops, service centre and warehouse facilities, with a partial leaseback. Vacant space was disposed of, the Corporation leased back only what it needed, received substantial immediate cash and moved property to the private sector where it will be developed to the betterment of the community.

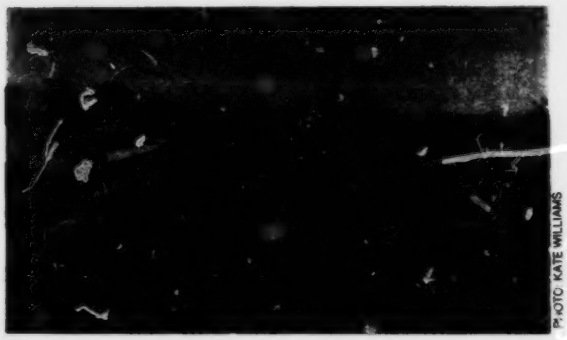
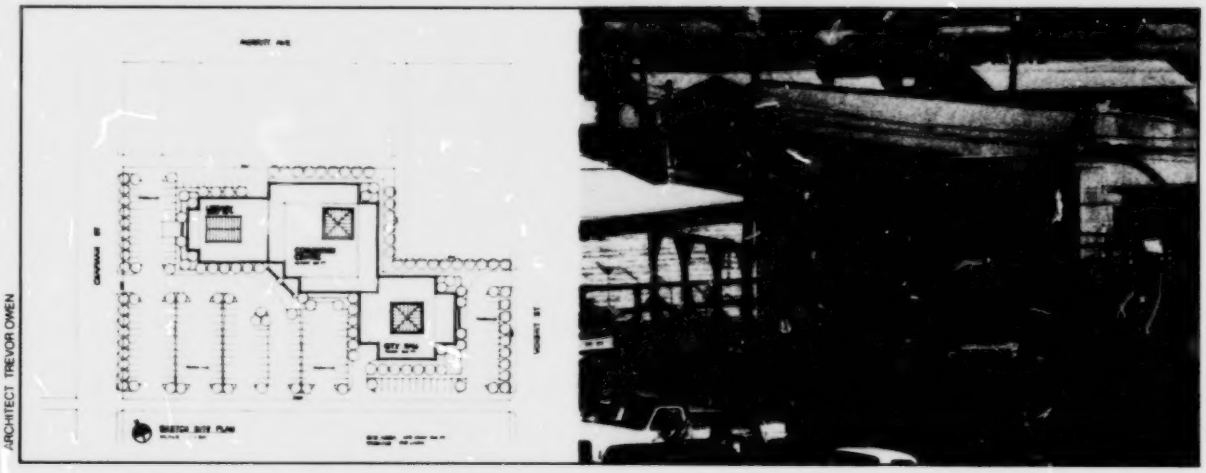


PHOTO KATE WILLIAMS

A busy commercial and government centre has been established by a private developer who bought the former vehicle testing station in Victoria. Part of the site is leased back by the Corporation for a motor licence office and government postal service office.

During the past year, the combination of disposals and increased leasing activity has resulted in a net decrease in owned properties of 588,000 sq. ft. and an increase of 64,000 sq. ft. in the leased space portfolio.

When there is community interest in a property to be sold, B.C. Buildings real estate staff works closely with municipal governments to discover creative ways to achieve the objective to the



Both the Town of Merritt and the Corporation benefited from the sale of this former Highways Yard (right). The Merritt Council made a land-swap plus cash transaction with the Corporation for the site which is ideally suited for a planned new municipal hall and convention centre (left). In return, the Corporation was able to build a new yard, better suited to Highways requirements, on the outskirts of the town.

benefit of the local area. A good example of this cooperation was seen in Merritt. Growth of the area over the last several years encompassed the land around the Ministry of Transportation and Highways Maintenance Yard to the extent that the site became a highly desirable location for a new city hall and held the possibility for development of other civic buildings. At the same time, a coincident relocation of the Highways Yard to Corporate owned land in the Merritt Industrial Park made the site surplus. In 1986, the city and the Corporation agreed to a trade on a value-for-value basis and several city owned properties, including a vacant commercial lot, a vacant residental parcel and cash were exchanged for the yardsite valued at $265,500. All value estimates were developed by independent appraisal and mutually accepted.

Similar arrangements have been made with other municipalities such as Burns Lake, Barriere and Parksville, and still others have been assisted with desired land acquisition through a direct sale of real estate. The key consideration in any disposal of Corporate property is that it be offered first to the municipality at independently appraised market value.

As the year closed, the Corporation was working in cooperation with the Honourable Elwood Veitch, Provincial Secretary and Minister Responsible for the Redevelopment of the Oakalla Lands, and with the Municipality of Burnaby, in planning for the future integration of the former corrections property into residential and parkland areas. The Lower Mainland Regional Correctional Centre, known as Oakalla, situated on 68 acres of prime land overlooking Deer Lake in the heart of Burnaby municipality, is to be replaced with three separate institutions developed for the Ministry of the Attorney General. The land will be sold by the Corporation and redeveloped by the private sector, in keeping with the needs of the community, into a large well planned residential development and an 18 acre municipal park. Concurrently, planning is ongoing with the Municipalities of Burnaby, for construction of the Burnaby Correctional Centre for Women; Maple Ridge, for construction of the Fraser Regional Correction Centre; and with Surrey, for the Surrey Justice Centre. The combined construction cost of the three projects of over $90 million will create in excess of 3,000 direct and indirect construction related jobs through 1991.

The privatizing of the B.C. Buildings portfolio will continue as a major challenge for 1987/88 as the Corporation rationalizes the kinds of real estate it should own or dispose of, while remaining responsive to the accommodation needs of our clients. And despite the planned construction of the above, and other owned, special purpose properties, the Corporation will continue to call upon the expertise of private sector entrepreneurs to satisfy many of those space requirements.

BOARD OF DIRECTORS

Thomas A. Toynbee, Chairman
Businessman
Ganges, British Columbia

Dan Peterson, MLA
Langley, British Columbia
(from November 19, 1986)

* Douglas McCallum
Businessman
Vancouver, British Columbia
(from January 13, 1987)

Bill Ritchie
Minister of Municipal Affairs
Province of British Columbia
(until August 14, 1986)

Peter Dolezal
President and Chief Executive Officer
British Columbia Buildings Corporation
Victoria, British Columbia

Gordon Robson
Businessman
Maple Ridge, British Columbia

Evan M. Wolfe
Businessman
Vancouver, British Columbia
(until January 13, 1987)

* John Wittenberg
Retired School Teacher
Abbotsford, British Columbia

* George A. Rigsby
Rigsby, Lea, Barr and Co.
Quesnel, British Columbia

* Robert E. Parkinson
Businessman
Victoria, British Columbia

* members of Audit Committee

CORPORATE MANAGEMENT

President and Chief Executive Officer Peter Dolezal

Stephan Marmash, General Counsel and Assistant Secretary

Planning and Client Services Group
Vice-President Bryan Wilson

Bob Clemenhagen, Client Services Director
Bill Robertson, Client Services Director
Ted Meadley, Client Services Director
Lak Parmar, Space Management Manager

Real Estate Group
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Ray Cantelon, Leasing and Corporate Purchasing Manager

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Evan Brewer, Region 2 Director
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Bill Young, Administrative Support Manager

Administration Group
Vice-President and Chief Financial Officer Dennis Truss

Dennis Jaques, Management Systems Manager
Don MacIver, Corporate Controller
Jim Alexander, Finance and Corporate Planning Manager
Jim Harrison, Human Resources and Corporate Affairs Manager
Bill Heschuk, Staff and Organizational Development Manager
Michael Grannum, Internal Audit Manager

Michael Grannum, Corporate Secretary

BRITISH COLUMBIA CATALOGUING IN PUBLICATION DATA

British Columbia Buildings Corporation
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2. British Columbia – Public works – Periodicals

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Manager

Back cover: Spring blossoms and sunshine, in Victoria, against a corner of the Douglas Building Annex that is occupied by the Ministries of Education and Finance and Corporate Relations.

PHOTO JOHN MURPHY